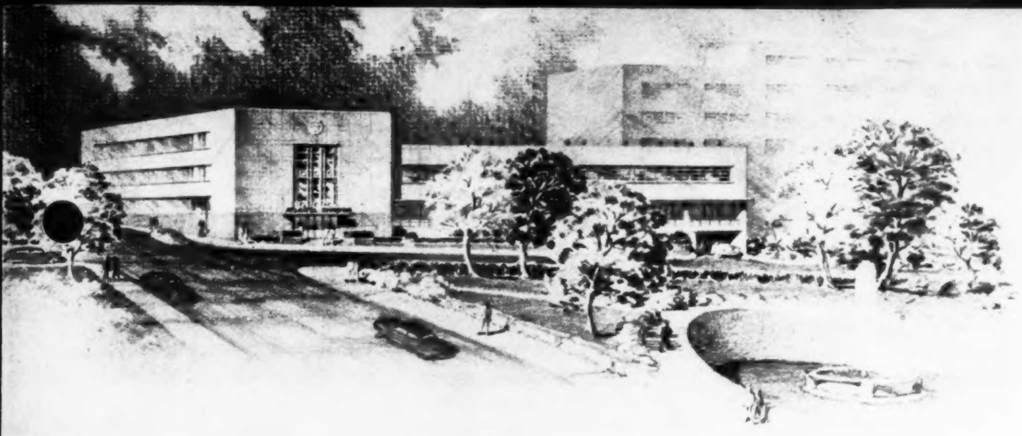

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INVESTING PERSONAL SAVINGS

by

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The growth in national income has enabled almost everyone except those dependent upon fixed income returns such as annuities and pensions to enjoy a higher standard of living and also has permitted many to save a part of their earnings. Measured in terms of 1951 prices, disposable personal income was $1,443 per capita in 1951 compared with $1,016 in 1929 and $1,027 in 1939. From 1939 to 1951 there was an indicated gain of about 40% per capita after adjustment for price changes and increased income taxes. It is estimated that real wages have averaged annually a 3% gain for the past 40 years. For the year 1939 the estimate of total personal savings was less than 3 billion dollars, while the total for 1951 was estimated at more than 17 billion dollars. These totals are not adjusted for difference in price levels between the two periods. Personal income for the current year, based upon the first 5 months, will be around 280 billion dollars and personal savings will approximate 18 billion.

At the close of 1939 personal holdings of liquid assets totaled approximately 50 billion dollars. In the following two years the total advanced to 60 billion and in the next ten years climbed to 186 billion, showing an increase of over 200% for the decade. These figures likewise are unadjusted for differences in prices levels. At the close of 1951, the percentage distribution of this vast accumulation of liquid assets belonging to individuals was, U. S. Government securities 33%; time deposits 32%; demand deposits 17%; currency 10%; and savings and loan shares 8%. If included, holdings of state and municipal and corporate obligations would add substantially to the foregoing totals.

The large increase in the annual amount of personal savings and the substantial growth in personal holdings of liquid assets means that the problem of investment now concerns many individuals who have not previously had funds available for investment and consequently are without investment experience. The steady gains in American productivity are the result of increased technical knowledge and larger capital investment. Progress requires continuous research and continual additions to the capital supply. Since the source of new capital is corporate and personal savings, it is important that both be encouraged, especially the latter. A thrifty citizenry will not look to a governmental agency for support but rather will support and assist the government in performing its true functions.

INDUCEMENT TO SAVE

To those having surplus earnings an inducement to contribute to the capital supply can be made by making available informative literature in understandable terms regarding investment practices and procedures and the probabilities of realizing profitable results from a sound investment program. The potential accumulation of capital through the systematic investment of small amounts by many workers is tremendous. An official of one of the largest steel companies recently pointed out that those on its payroll could at the prevailing market price acquire complete common stock ownership of the company by a weekly payment of $10.00 in a period of less than seven years. This suggested weekly payment was about the amount of the raise just granted the steelworkers. Widespread stock ownership by employees should strengthen their loyalty both to their company and to the American system. An organized effort to educate savers along these lines should be undertaken. The stock exchanges and their members have done some good work in this direction but thus far their efforts have not been very effective, judging by the relatively small number of investors in stocks. A recent survey indicated the total number

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of stockholders to be around 6,500,000, representing about 4% of total population and 10% of the families of the country. News reports have indicated that some of the exchanges are exploring the possibilities of making stock purchases available to small investors on an instalment basis. The savings and loan associations have been successful in channeling a large amount of capital into real estate mortgage investment. In some states the investment powers of mutual savings banks have been broadened to permit purchase of common stocks in moderate amounts. Life insurance companies may buy some common stocks, the amount varying with the state of jurisdiction. Thus through the conservative agencies of mutual savings banks and life insurance companies savers do indirectly participate in a small way in the ownership of equities. Some states that formerly restricted trust investments to bonds and mortgages have altered their statutes to permit purchase of common stocks. They have only belatedly come into line with those states that have long permitted the investment of fiduciary funds in common stocks. The professionally managed investment fund has become the most popular medium for the investment of small amounts in securities, and this method will be discussed later in more detail.

ATTITUDE TOWARD STOCK

Prior to World War I few stocks were considered to be of investment quality and the number of purchasers of stocks for investment was small. At this time most stock buyers seem to have been regarded as speculators. Purchase of Liberty Bonds during the war period made more people security conscious and with the sustained advance in stock prices through the twenties led many to begin the purchase of stocks. Any plan made today for long term investment for an individual would surely provide for the investment of a substantial part of the total fund in good stocks, either by periodic purchase or by purchase at lower market levels. The concepts of sound investment must change to meet new risks. In a progressive society, change is irresistible and oftentimes occurs with bewildering rapidity.

The thrifty individual who followed what was considered to be both a patroitic and conservative policy and invested his savings in Series E bonds a decade ago has suffered a decline of about 50% in the buying power of his savings. Owners who cash maturing Series E bonds today will find the mathematical increment to be a mirage. The amount at maturity has less buying power than the original investment and taxes of 25% and upwards must be paid on the mythical earnings. While the investor endeavors to avoid such evident risks as are always involved in the purchase of property, even a much needed house in which to dwell, the invisible risks proved more serious. While the government was keeping down its visible costs of borrowing by forcing artificially low rates on lenders, the invisible result to the average voter was a heavy levy on all who practiced thrift and invested in dollar credits. By its own policy the government forced up the cost of defense through inflation. The reciprocal of cheap money is high prices for goods and services. Unfortunately it appears that any postponement of consumption of surplus earnings always involves some risk of loss. It is the problem of the saver to appraise or measure that risk against the possibility of gain and act accordingly.

While the buying power of the dollar has been drastically reduced since 1940, the downward trend has with interruptions for various periods persisted for more than a century. Moves to cheapen the monetary unit are never resisted as strongly as proposed moves to strengthen it. The operation of this rule has just been witnessed in the hue and cry raised over firmer money rates. The dominant idea is that a little inflation is good for everybody, the rights of the Series E bondholders, insurance policyholders, and recipients of annuities and pensions to the contrary notwithstanding. That deficit financing has become very popular is attested by the fact hat almost all nations of the world are now so engaged. All of this seems to add up to the conclusion

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that safety of investment requires the inclusion of equities in the investment program.

INSTITUTIONAL INVESTORS

The leading fire insurance companies have long been substantial buyers of common stocks. As of June 30, 1952, about half of the endowment fund of a prominent group of colleges and universities were invested in stock equities. Backed by the favorable long terms results of institutional investment in common socks and supported by the changed attitude of regulatory bodies toward equity invesment, why are there relatively so few stockholders in relation to the number able to invest in common stocks? The answer must be lack of understanding and what is not understood is feared. This fear should be overcome by a study of the record. Much needed legislation has been enacted in recent years to protect stock investors, and additional measures if needed will doubtless be enacted in the future. Over the past half-century stock in leading companies bought at reasonable levels have proved more profitable than corporate bonds. Behind the better performance record of common stocks is the ability of a successful company to earn a higher rate on its equity capital than it has to pay on borrowed funds. Thus such a company could both pay an average dividend in excess of bond interest and concurrently build up the value of its common stock through the reinvestment of undistributed earnings. The record is even more favorable for common stocks in the past two decades or since abandonment of the gold standard. While stocks may not be accepted as a perfect hedge against inflation they have afforded a substantial measure of protection in the past. In an inflationary period both property values and earnings tend to rise and dividend distributions tend to increase as living costs advance. In fact the percentage gain in the Dow-Jones industrial stock price index and the increase in dividend payments since 1900 are almost identical with the increase in the cost of living according to the index prepared by the Federal Reserve Bank of New York.

PLANNING A PROGRAM

The purchase of investment securities should not ordinarily be undertaken until personal savings exceed a reasonable cash reserve, one equal perhaps to a year's earnings; until adequate life insurance coverage has been provided, if there are dependents; and until a home is owned free of indebtedness, if the individual is located permanently and desires home ownership. The cash reserve should be placed in a savings account or in savings and loan shares and held available solely for emergency use, such as sickness and unemployment. Use of some form of term life insurance will provide maximum coverage at minimum cost. As circumstances change this coverage can be amended to meet individual requirements. When these provisions have been made the saver is in a position to consider a program of security investment.

The beginning investor might well adopt a simple plan of dividing his funds about equally between investments free of price risk and those involving price risk. These two divisions may be referred to as Reserve Funds and Equity Funds. Holdings in the Reserve Fund will naturally provide lower yields but they may be relied upon absolutely for conversion into cash without dollar loss. Holdings in the Equity Fund will provide higher yields, a participation in the growth of American business, and a good hedge against inflation, but these issues will fluctuate in market price and occasionally may decline sharply in dollar value. A sound investment program will allow for the possibility of either inflation or deflation, or both with one following the other. For the past two decades the emphasis has been upon protection agains inflation but the possibility of a temporary period of deflation at some time ahead should not be disregarded. The proportional distribution of investment between the Reserve and Equity classifications will be altered from time to time as equity prices rise to relatively high levels or decline to relatively low levels. The points at which transfers between classifications will be made must be determined by the investor in the light of his situation and objectives. In making his decision, the investor will analyze to the best of his ability all available business reports and statistics and also seek the advice of competent and impartial advisers. One very helpful indicator will be the relation of the current level of security prices to previous levels. This can be determined readily by reference to one of the good stock price indexes such as Standard & Poor's:

STANDARD & POOR'S MONTHLY STOCK PRICE INDEXES 1935-1939=100

1872	42.0	1902	70.3	1916	80.5	1937	117.5
1877	26.2	1904	58.8	1918	64.1	1942	69.4
1881	52.3	1906	80.6	1919	74.6	1946	139.9
1885	38.3	1908	65.0	1921	58.3	1949	121.4
1892	46.3	1909	81.2	1929	200.9	1952	197.0
1896	35.4	1914	67.4	1932	51.2		

With the current level of stock prices being only a little below the 1952 index number, it is apparent that stocks are now in historically high ground. Within the past 80 years, this index which includes approximately 500 stocks has only once been above the 1952 level and that point marked the end of the wild market of the late twenties. However if stock prices are adjusted for the reduced value of the dollar, as measured by the rise in living costs, then their current levels appear much more reasonable.

Various plans have been developed and publicized by both individuals and institutions for determining the desirable distribution between dollar reserve and equity risks. Many have been tried and abandoned and others have continued with various amendments to the original plans. According to news reports Yale University has since June

(Continued on Page 6)

Atlanta Area Index Figures

ITEM	June 1953	May 1953	Percentage Change	June 1952	Percentage Change
EMPLOYMENT					
Job insurance (unemployment) payments	$141,675	$138,382	+2.4	$161,834	–12.5
Total Non-Agricultural Employment (Thousands)	290.6	288.4	+0.8	283.6	+2.5
Manufacturing Employment (Thousands)	78.2	77.8	+0.5	72.1	+8.5
Average Weekly Earnings, Factory Workers	$64.68	$62.83	+2.9	$57.81	+11.9
Average Weekly Hours, Factory Workers	41.2	40.8	+1.0	40.0	+3.0
Number Help Wanted Ads	9,570	12,401	–22.8	9,011	+6.2
CONSTRUCTION					
Number Building Permits City of Atlanta	990	977	+1.3	907	+9.2
Value Building Permits City of Atlanta	$12,262,531	$5,269,106	+132.7	$2,936,455	+317.6
Employees in Contract Construction (Thousands)	15.5	14.5	+6.9	15.9	–2.5
FINANCIAL					
Bank Debits (Millions)	$1,247.8	$1,136.3	+9.8	$1,098.5	+13.6
Total Deposits (Millions) End of Period	$925.0	$919.0	+0.7	$957.7	–3.4
POSTAL§					
Postal Receipts	$1,179,041	$1,157,736	+1.8	$1,074,961	+9.7
Postal Cancellations	22,921,568	22,827,265	+0.4	22,113,274	+3.7
Poundage 2d Class Mail	1,069,180	1,348,460	–20.7	1,096,770**	+13.0
Postal Savings to Credit Depositors, end of period	$3,172,972	$3,200,668	–0.9	$3,390,997	–6.4
OTHER					
Consumer Price Index (1947-49=100)	117.1	116.7¶	+0.3	114.6*	+2.2
Retail Food Price Index (1947-49=100)	114.5	112.8	+1.5	112.1	+2.1
Department Store Sales Index (Adjusted) (1947-49=100)	128	143	–10.5	135	–5.2

*May 1952. ¶March 1953. §City of Atlanta only. ** Ave. Month, Second Qtr. 1952.

Sources: **All data on employment, unemployment, hours, and earnings:** Employment Security Agency, Georgia Department of Labor; **Number Help Wanted Ads:** Atlanta Newspapers, Inc.; **Building Permits data:** Office of the Building Inspector, Atlanta, Georgia; **Financial data:** Board of Governors, Federal Reserve System; **Postal data:** Atlanta Post Office; **Consumer Price Index** and **Retail Food Price Index:** U. S. Department of Labor; **Department Store Sales Index:** Federal Reserve Bank of Atlanta and Board of Governors, Federal Reserve System.

January through June, 1952 and 1953

1953	1952	ITEM	PER CENT CHANGE
$40,027,029	$18,768,731	Value of Building Permits City of Atlanta	+113.3
7,160,227	6,362,322	Poundage, 2nd Class Mail Atlanta Post Office	+12.5
$62.96	$56.88	Average Weekly Earnings, Factory Workers	+10.7
61,983	56,727	Number Help Wanted Ads	+9.3
$7,130.3	$6,594.7	Bank Debits (Millions)	+8.1
71.9	77.3	Number Manufacturing Employees* (Thousands)	+7.5
5,768	5,448	Number Building Permits City of Atlanta	+5.9
286.6	275.1	Total Non-Agricultural Employment* (Thousands)	+4.2
$7,089,219	$6,850,759	Postal Receipts Atlanta Post Office	+3.5
N. A.	N. A.	Department Store Sales (Based on dollar amounts)	+3.0
41.2	40.6	Average Weekly Hours,* Factory Workers	+1.5
114.5	112.8	Retail Food Price Index¶	+1.5
143,035,662	142,213,740	Postal Cancellations, Atlanta Post Office	+0.6
117.1	116.7	Consumers Price Index¶ (1947-49=100)	+0.3
$925.0	$957.7	Total Deposits (Millions)§	−3.4
$881,555	$921,355	Job Insurance Payments	−4.3
$3,172,972	$3,390,997	Postal Saving to Credit of Depositors at End of Period	−6.4
13.3	15.1	Employees in Contract Construction* (Thousands)	−11.9

*Average of Monthly data.
N. A. Not Available.
¶June of each year.
§Last Wednesday in June each year.
SOURCES: Same as page 4.

30, 1952, discontinued the use of a set ratio plan of investment which it had used for a good many years. It was reported that common stock holdings, which stood at 39% on June 30, 1952, had been increased to about 46% of total endowment funds by March 1953. The move was interpreted to reflect confidence in sound common stocks for investment yield at current prices and to recognize the need for higher income to meet inflationary costs.

THE INVESTOR'S DILEMMA

At almost any point the investor will be faced with divergent statistical trends and contradictory advice as to the proper investment policy. Experience will teach the intelligent investor not to wait for the top or bottom of a market move. Few can sell at the high or buy at the low for a relatively small number of transactions will take place at these extreme points. After a sustained rise, the conservative investor should reduce equity risks and increase reserve funds. Under this policy reserve funds might be increased until a total of 75% to 80% is reached. It is doubtful if all stocks should be eliminated from an investment account even at new high levels. If the total is reduced to only 20%, the risk of future market depreciation is moderate. This plan permits the account to retain an interest in equities if the market should remain permanently on a new plateau.

The advantage and gains that will accrue to the investor who can time his moves with reasonable accuracy are worthwhile, and the more accurate the timing, the better the results. Some investors will find it difficult to start selling at the boom period in a rising market or to start buying at a time of business stagnation in a falling market. Between the periods for selling and buying, investments in the reserve fund will earn something. Usually the greater the overexpansion of business, the higher the return obtainable on high grade short term investments. An investor who might have followed a policy of transferring funds from equity to reserve investments in the long rise of 1921-1929, would probably have reduced his equity holdings to the 20% level long before the top was reached, but he lacked in that period no opportunity of employing his reserve funds at very attractive rates. Yields on high grade short term securities were for the most part far in excess of the yields on high grade equities. While such an investor lost much in the way of potential profits, he did not overstay the rise which was regarded by many as placing the market at permanently higher levels. Moreover, he did not repurchase his stocks long before the proper time, if he waited for stocks to drop to a point well below the level at which his sales were made.

SELECTING INVESTMENTS

Selecting media for the investment of reserve funds is an easy task. The small investor can use savings accounts and savings & loan shares, and the large investor can add short term U. S. securities and some high quality tax exempt bonds if needed for tax reasons.

Selecting securities for the investment of equity funds will require more consideration. The conservative investor will choose readily marketable stocks of well established and conservatively capitalized companies. At the prevailing price for the stock under consideration, good value must be indicated by the common measures of earnings trend, earning power, financial strength, and dividend record. He will make his choice to obtain good diversification of risk and will avoid paying too much of a premium for anticipated growth in some of our newer industries. A representative and diversified list selected by the investor with these points in mind and with the aid of such impartial advice as may be available should give satisfactory results.

If the investor feels that the task of selection is too intricate and the principles of portfolio management too complex he can readily shift the problem to professional hands through the purchase of investment company shares. The investment company may be one of two general types, the closed-end type and the open-end type. The latter stands ready to sell at any time to its sponsor or distributing agent an unlimited amount of its capital stock at its asset value. The sponsor of the investment fund sells this stock to the public through investment dealers after adding a distributing charge of around 7% to 9%. A substantial part of this charge is paid to the investment dealer for his services in selling shares to the individual investor. The stocks of the closed-end companies are traded in the same manner as any other corporate equity and many have their shares listed on one of the stock exchanges. Most of the common stocks of the closed-end companies sell at a discount from their asset value, although a few with exceptional performance records sell at a premium. In addition to the loading charge of 7% to 9% imposed on buyers of most open-end shares, there is an annual management charge of about one-half per cent based on value of assets and this charge usually absorbs 10% to 15% of the income earned. Thus the advantages of diversification and professional management are available at a cost. It is to be noted, however, that the shares of most open-end funds are redeemable upon call at asset value without any further charge.

DOLLAR AVERAGING

The shares of the investment companies are especially suitable for purchase under the dollar averaging plan of investment. Under this plan no attempt is made to judge the present level of the stock market against future levels. A definite amount is applied periodically, say monthly or quarterly, to the purchase of shares and continued at least through a cycle. By applying the same amount of funds to each purchase, rather than to purchase the same number of shares each time, a smaller number of shares is purchased when the

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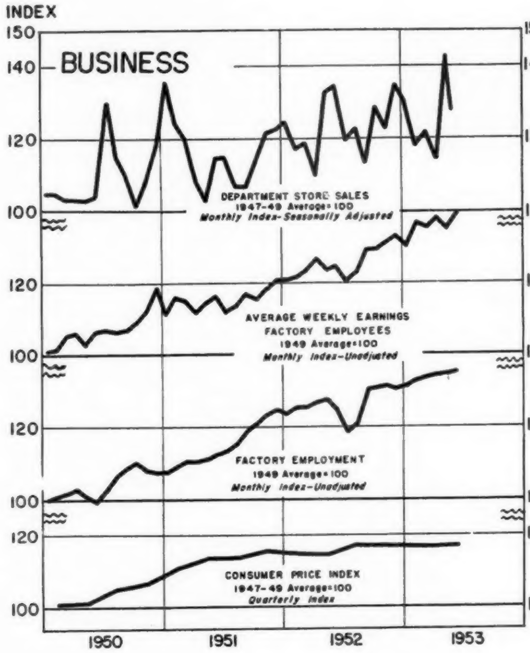
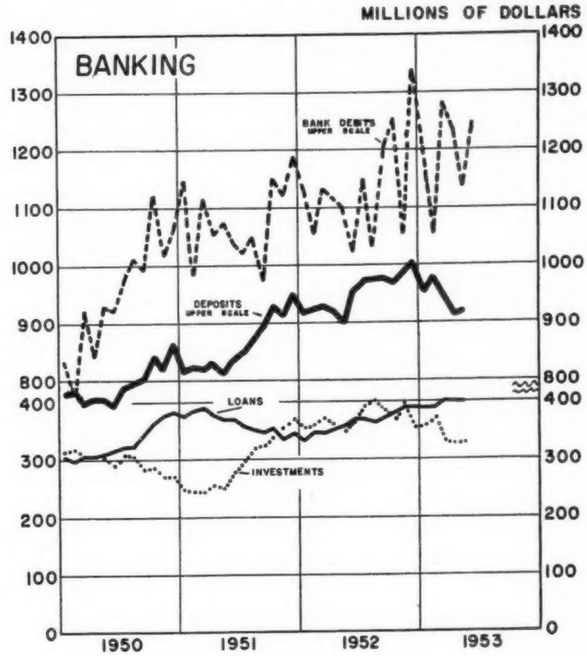
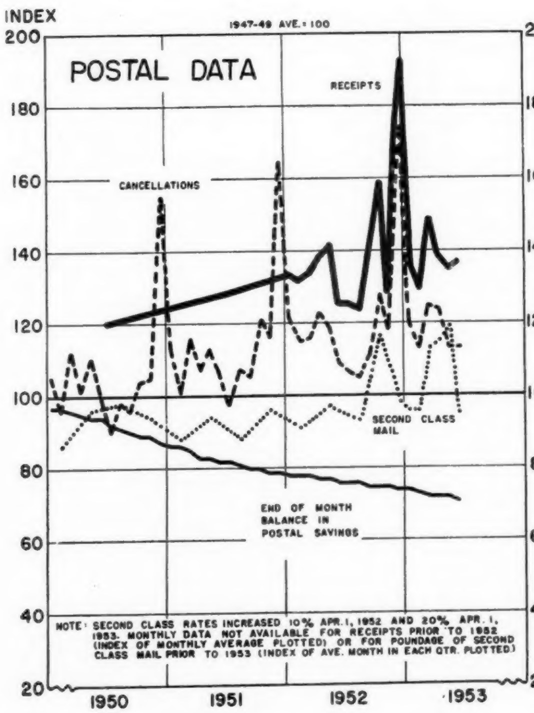
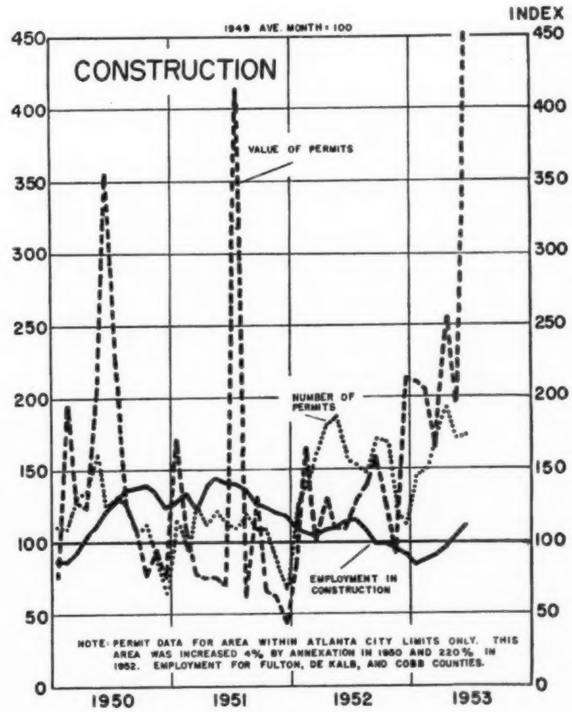
METROPOLITAN AREA BUSINESS . . . . . AT A GLANCE









Sources: **Banking data:** Board of Governors of the Federal Reserve System and the Federal Reserve Bank of Atlanta; **Postal data:** Atlanta Post Office; **Construction data:** Office of the Building Inspector of Atlanta and Georgia Department of Labor; **Business data:** Federal Reserve Bank of Atlanta, Georgia, Georgia Department of Labor and U. S. Department of Labor.

price is high and a larger number when the price is low. By this method a lower average price is obtained than would have been realized if the same number of shares had been bought at each purchase. The method can be applied to any stock but the average investor would hardly have sufficient funds to purchase enough individual issues to obtain adequate diversification.

One of the oldest and largest of the open-end investment trusts has published the results which would have been realized from a monthly investment of $50 in its shares if such a plan had been started at any one of three historically interesting dates; (1) the peak of the market in 1929; (2) the low of the market in 1932; and (3) the high of the market in 1937 and continued through 1952. Neither dividends from investment income nor capital gains were reinvested. The average cost of the shares was lowest under the program begun at the low of the market in 1932, but the cost of the shares under the program started at the all time high in 1929 was less than 2% above the 1932 average. The average cost of the shares under the plan initiated in 1937 was about 8% above that for the 1932 program. Although all three plans would have produced losses if liquidated at certain points in their duration, the first two showed at the close of 1952 a principal gain of better than 80% and the third a gain of better than 70%, all without any credit for capital gains dividends paid to stockholders during the periods.

Dollar averaging applied to an industrial stock would provide no protection through diversification and in the event of an unfortunate selection the loss to the investor would be serious. On the other hand, through the use of the shares of one of the well established open-end trusts, the investor will acquire a fractional interest in probably a hundred or more securities. No fear need arise as to the ultimate profitability of a dollar averaging plan applied to such a broad list of carefully selected investments. Any development economic or political that imparied the future of such an investment would surely impair the value of all high grade dollar obligations including governmental issues.

A combination of decreasing term insurance and open-end investment fund shares purchased under the dollar averaging plan can be used to create an immediate estate in the event of death or to build an equity estate in the event of survival. While the shares are more attractive to the small than the larger investor, some trusts report individual sales of very substantial amounts. The loading charge is scaled down as the size of the investment increases. Patently investment fund shares do constitute an excellent medium for the beginner to use until he feels confident of his ability to select individual issues.

EVALUATING RESULTS

Whether the investor makes his own stock selections or buys investment fund shares, whether he uses the dollar averaging plan or relies upon his own judgment as to the advantageous time to buy, or whether he sells on a scale as the market advances or relies upon his judgment to determine the proper time to sell, he should periodically evaluate his results. Honest evaluation of investment results has deflated the personal appraisal of management ability on the part of many investors and increased their respect for the principle of compound interest. Every investor must keep records for income tax purposes. From these it is not difficult to compute the principal gain or loss and the dividend return on stockholdings and on the total of invested funds and to compare results with published bond and stock indexes and interest and dividend yields. Results realized by most of the investment funds are published quarterly and these afford a basis for comparison. To determine how satisfactorily purchasing power is being maintained, the total value of the investment account, including reserve and equity funds, may be compared with the cost of living index.

The inquiring investor will evaluate results by many methods in an effort to become both an intelligent and a successful investor.

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